

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
PLEASANT VALLEY, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2003 Election)		
Deborah Dayman	President	2004
Tana Barsness	Vice President	2005
Bill Romans	Board Member	2003
Joe Coon	Board Member	2003
Pam Thornton	Board Member	2004
Kevin O'Hara	Board Member	2005
John Hoffmann	Board Member	2005
<u>Board of Education</u>		
(After September 2003 Election)		
Deborah Dayman	President	2004
Tana Barsness	Vice President	2005
Pam Thornton	Board Member	(Resigned 6-7-04) 2004
Kathy Kaminski	Board Member	(Appointed 6-7-04) 2004
Kevin O'Hara	Board Member	2005
John Hoffmann	Board Member	2005
Dan Schurr	Board Member	2006
Joanne Messman	Board Member	2006
<u>School Officials</u>		
Dr. James R. Spelhaug	Superintendent	2007
Cyndy Behrer	Assistant Superintendent	2006
Mike Clingingsmith	Chief Financial Officer	2006
Christine Harvey	District Secretary	2004
Joyce E. Bauwens	District Treasurer	2004
Lane & Waterman	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Pleasant Valley Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Pleasant Valley Community School District, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Pleasant Valley Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2004 on our consideration of Pleasant Valley Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 21 and 52 through 54 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pleasant Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
September 9, 2004

Management Discussion and Analysis

This section of the Pleasant Valley Community School District's Annual Financial Report presents its discussion and analysis of the district's financial performance during the fiscal year ending June 30, 2004. The analysis focuses on the district's financial performance as a whole. Please read it in conjunction with the district's financial statements, which immediately follow this section.

Financial Highlights

- The district converted from the cash basis to GAAP (Generally Accepted Accounting Principles) basis of accounting for budgeting purposes in 2003-04. Under the GAAP basis of accounting, revenue and receivables are recognized when earned rather than when cash is received and liabilities and expenditures are recognized when a liability is incurred, rather than when cash is paid out. The district's budgeting and financial reporting method of accounting will now be consistent.
- Construction was completed on a 13,050 square foot classroom addition to Pleasant View Elementary School, Bettendorf, Iowa, near the end of the 2003-04 fiscal year. The total cost of the project was \$ 1,547,349. The project was funded with Physical Plant and Equipment Levy (PPEL) receipts and Local Option Sales and Services Tax for School Infrastructure receipts.
- Construction began on an approximately 6,900 square foot classroom addition at Bridgeview Elementary School, LeClaire, Iowa. This project also included remodeling of approximately 1,240 square feet of existing building space. The total amount paid on the project at the end of the 2003-04 fiscal year was \$ 105,245. The project is expected to be completed during the 2004-05 fiscal year with a final project cost estimate of approximately \$ 978,520. The project is being funded with Physical Plant and Equipment Levy (PPEL) receipts and Local Option Sales and Services Tax for School Infrastructure receipts.
- Construction began on a music and wellness addition at Pleasant Valley High School, Riverdale, Iowa. The total square feet for these additions are approximately 15,890 square feet. This project also includes remodeling of approximately 8,070 square feet of existing building space. The total amount paid on the project at the end of the 2003-04 fiscal year was \$ 241,106. The project is expected to be completed during the 2004-05 fiscal year with a final project cost estimate of approximately \$ 2,609,965. The project is being funded with Physical Plant and Equipment Levy (PPEL) receipts and Local Option Sales and Services Tax for School Infrastructure receipts.
- Interest rates continued to remain low during the 2003-04 fiscal year. The district's Governmental Fund bank accounts earned \$ 82,020 during 2003-04, a decrease of \$ 101,120 from the \$ 183,140 that those accounts earned during the 2002-03 fiscal year. Lower average cash balances due to construction payments, etc. was also a contributing factor to the decrease in interest income. The district utilizes "sweep" accounts in the General, Management, Physical Plant and Equipment Levy (PPEL) and Nutrition Funds for the purpose of maximizing interest income.

- General Fund cash decreased by \$ 843,957 during 2003-04. Several factors contributed to this including a 2003-04 state across the board budget cut of 2.25% to state aid, a reduction in the amount that was scheduled to paid in machinery and equipment (M & E) replacement funds (only 34% of the amount scheduled to be paid by the state was actually paid) and a growing special education deficit (the district's special education deficit grew from \$ 447,354 in 2002-03 to \$ 523,024 in 2003-04). Total district general fund spending authority was not reduced as a result of any of the previously mentioned factors. The reduction in general fund cash caused the district's solvency ratio to drop from 9.60% at June 30, 2003 to 5.33% at June 30, 2004.
- The state of Iowa makes an estimate each year of the dollar amount that will be collected from the Local Option Sales and Services Tax for School Infrastructure for each school district in each county that has passed the tax. Local Option Sales Tax receipts for the year are then based on 95% of that estimate. A reconciliation to the actual amount collected is done once per year each November. In November 2003, Pleasant Valley Community School District received a reconciliation payment of \$ 87,571. The district had a total of \$ 2,468,510 in local option sales and services tax for school infrastructure revenue in 2003-04.
- The Food Services program purchased a new state of the art point of sale cashiering system to improve services to students and overall financial accountability in the program. The system became operational in the elementary schools in May 2003 and was implemented at the junior high and high school levels at the beginning of the 2003-04 school year.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements are **district-wide financial statements** that provide both short-term and long-term information about the district's **overall** financial status.
- The remaining statements are **fund financial statements** that focus on **individual parts** of the district, reporting the district's operations in more detail than the district-wide statements.
- The **governmental funds statements** tell how basic services such as regular and special education were financed in the **short term** as well as what remains for future spending.
- **Proprietary funds statements** offer **short-term and long-term** financial information about the activities the district operates like businesses, such as food services.
- **Fiduciary funds statements** provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district’s budget for the year. Figure A-1 below shows how the various parts of this annual report are arranged and related to one another.

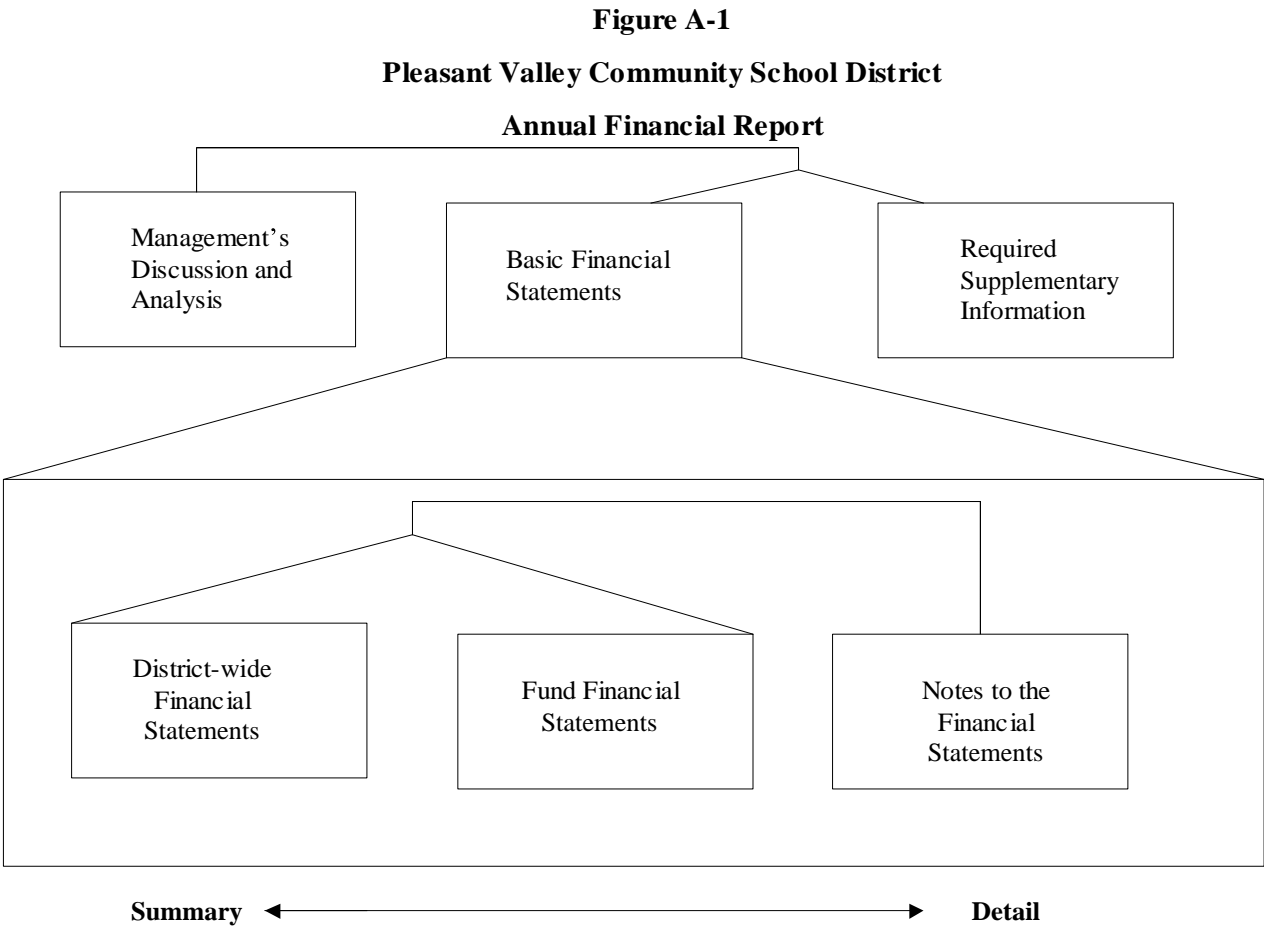


Figure A-2 below summarizes the major features of the district’s financial statements, including the portion of the district’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2: Major Features of the District Wide and Fund Financial Statements				
	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: Food Services program is included here	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and reunion moneys
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can

District-wide Financial Statements

The district-wide statements report information about the district as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the district’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the district’s **net assets** and how they have changed. Net assets – the difference between the district’s assets and liabilities – is one way to measure the district’s financial health or **position**.

- Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the district's overall health, you need to consider additional non-financial factors such as changes in the district's property tax base and the condition of school building and other facilities.

In the district-wide financial statements, the district's activities are divided into two categories:

- **Governmental activities:** Most of the district's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- **Business-type activities:** The district charges fees to help it cover the costs of certain services it provides. The district's Food Services program would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the district's funds, focusing on its most significant or "major" funds – not the district as a whole. Funds are accounting devices the district uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The district establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The district has three kinds of funds:

- **Governmental funds:** Most of the district's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between the two statements. The district's major governmental funds for 2003-04 include the General Fund, a Special Revenue Fund (the Physical Plant and Equipment Levy (PPEL) Fund) and the Capital Projects Fund. The Non-major Governmental Funds include two Special Revenue Funds (Management Fund and Student Activities).

- **Proprietary funds:** Services for which the district charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The district's **enterprise funds** (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The district currently has one enterprise fund, the Nutrition Fund. The district uses **internal service funds**, the other kind of proprietary fund, to report activities that provide supplies and services for other district programs and activities. The district currently has one internal service fund, which is used to account for the district's self-funded health and dental insurance plans.
- **Fiduciary funds:** The district is the trustee, or **fiduciary**, for assets that belong to others, including two scholarship funds and a reunion fund. The district accounts for outside donations for scholarships for individual students in this fund. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The district excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets. The district's combined net assets as of June 30, 2004 grew by \$ 768,879 (3.2%) over the June 30, 2003 combined net assets. (See Figure A-3) Most of the dollars increase in net assets was from the governmental activities whose net assets grew by \$ 730,866 (3.1%). The net assets of the district's business-type activities grew by \$ 38,013 (14.0%).

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	@ 6-30-2003	@ 6-30-2004	@ 6-30-2003	@ 6-30-2004	@ 6-30-2003	@ 6-30-2004	2003-04
Current and other assets	17,047,746	18,174,711	271,808	327,617	17,319,554	18,502,328	6.8%
Capital assets	19,593,679	20,057,856	47,862	40,956	19,641,541	20,098,812	2.3%
Total Assets	36,641,425	38,232,567	319,670	368,573	36,961,095	38,601,140	4.4%
Long-term liabilities	867,715	1,131,977	0	0	867,715	1,131,977	30.5%
Other liabilities	12,325,251	12,921,265	48,283	59,173	12,373,534	12,980,438	4.9%
Total Liabilities	13,192,966	14,053,242	48,283	59,173	13,241,249	14,112,415	6.6%
Net assets							
Invested in capital assets, net of related debt	19,593,679	20,057,856	47,862	40,956	19,641,541	20,098,812	2.3%
Restricted and designated	2,059,116	3,606,883	0	0	2,059,116	3,606,883	75.2%
Unrestricted	1,795,664	514,586	223,525	268,444	2,019,189	783,030	-61.2%
Total net assets	23,448,459	24,179,325	271,387	309,400	23,719,846	24,488,725	3.2%

Part of this increase in net assets was due to the increase in capital assets in the district. As was mentioned in the “Financial Highlights” section of this report, a classroom addition at Pleasant View Elementary School was completed during the 2003-04 fiscal year. Also, building additions were begun at Bridgeview Elementary School and Pleasant Valley High School. All of these building projects were funded with receipts from the Physical Plant and Equipment Levy and Local Option Sales Tax. No long-term debt was incurred to finance these projects. Total capital assets, net of depreciation, grew by \$ 457,271 in 2003-04.

Long-term liabilities, which consists of liabilities for early retirement and compensated absences, grew by \$ 264,262 (30.5%) in 2003-04. Early retirement incentive payouts which are payable in the next fiscal year were recorded as a current liability at June 30, 2003. All early retirement incentive payouts, regardless of when paid, are more appropriately classified as long-term liabilities at June 30, 2004.

Total restricted and designated net assets for 2003-04 grew by 75.2% and unrestricted net assets declined by 61.2%. This was mainly due to a different classification of the district’s Capital Projects Fund in 2002-03. It is being more appropriately reported as a restricted fund in 2003-04. Another factor in the variances of restricted and unrestricted net assets between the two years is that early retirement and compensated absence liabilities were more appropriately netted against Management Fund assets in calculating the 2003-04 restricted net asset figure. That was not done in 2002-03.

Changes in net assets. The district’s change in net assets for the years ended June 30, 2003 and June 30, 2004 are presented in Figure A-4 below.

Figure A-4
Changes in Net Assets from Operating Results

	Governmental Activities FY2003	Governmental Activities FY2004	Business- type Activities FY2003	Business- type Activities FY2004	Total School District FY2003	Total School District FY2004	Total Percentage Change 2003-04
Revenues:							
Program Revenues							
Charges for services	1,989,311	2,489,134	662,329	758,167	2,651,640	3,247,301	22.5%
Operating grants and contributions	1,746,119	2,197,972	187,019	209,884	1,933,138	2,407,856	24.6%
Capital grants and contributions	402,448	0	0	0	402,448	0	-100.0%
General revenues							
Property taxes	10,755,269	10,052,612	0	0	10,755,269	10,052,612	-6.5%
State foundation aid	8,810,873	8,863,955	0	0	8,810,873	8,863,955	0.6%
Local option sales and services tax	2,388,628	2,468,510	0	0	2,388,628	2,468,510	3.3%
Other	262,795	140,329	4,075	3,853	266,870	144,182	-46.0%
Total revenues	26,355,443	26,212,512	853,423	971,904	27,208,866	27,184,416	-0.1%
Expenses:							
Instruction	15,653,465	16,813,796	0	0	15,653,465	16,813,796	7.4%
Support services	6,085,664	6,063,440	0	0	6,085,664	6,063,440	-0.4%
Non-instructional programs	0	31,111	828,949	933,891	828,949	965,002	16.4%
Other	2,799,952	2,573,299	0	0	2,799,952	2,573,299	-8.1%
Total expenses	24,539,081	25,481,646	828,949	933,891	25,368,030	26,415,537	4.1%
Change in net assets before special item	1,816,362	730,866	24,474	38,013	1,840,836	768,879	-58.2%
Special item:							
Gain on disposal of assets	6,352	0	0	0	6,352	0	-100.0%
Increase (Decrease) in net assets	1,822,714	730,866	24,474	38,013	1,847,188	768,879	-58.4%

Total revenue for the district decreased by 0.1% in the fiscal year ended June 30, 2004. Capital grants and contributions for FY2004 declined by \$ 402,448 (100.0%). Part of this decline was due to revenue from the Educational Excellence program (Phase I, II and III), which was misclassified as capital grant and contribution income in FY2003. The revenue from the Educational Excellence program is more appropriately being classified as operating grants and contributions in FY2004. Property tax revenue declined by \$ 702,657 (6.5%) in 2003-04 mainly due to the district no longer needing to levy tax dollars for debt service as the district's entire long-term debt on the 1994 Riverdale Heights Elementary School addition was paid off on June 1, 2003. Other general revenues decreased by 46.0% in 2003-04 due mainly to lower amounts of interest income received because of low interest rates and lower average cash balances than the district had during the 2002-03 fiscal year. One of the main reasons for the lower average cash balances was that the district had used significant cash reserves in the debt service and capital projects funds to pay off the district's long-term debt on June 1, 2003.

Property tax revenues in the district continue to be significantly affected by the elimination of machinery and equipment (M & E) from the taxable valuation base. Due to legislative changes put into law several years ago, machinery and equipment purchased after January 1, 1994 is no longer included in taxable valuations and machinery and equipment that was included in the taxable valuation base at January 1, 1994 has been phased out. For the 2003-04 budget year, which is based on January 1, 2002 taxable valuations, no machinery and equipment remained in the district's taxable valuation base. That figure is down from \$ 146,624,448 at January 1, 1994 when the phase out of machinery and equipment began. The state of Iowa had been providing replacement funds to help offset the lost property taxes due to the M & E phase out. Due to budget problems in the state of Iowa, the state only paid 98% of what was originally budgeted for the M & E replacement funds in 2002-03. This represented a loss of approximately \$ 22,000 in budgeted M & E replacement funds revenue in 2002-03. The state only paid 34% of what was originally budgeted for the M & E replacement funds in 2003-04. This represented a decrease of approximately \$ 555,000 in M & E replacement funds from the previous fiscal year.

Total district expenses increased by 4.1% in 2003-04. The district's certified enrollment, which is one factor in the determination of the district's regular program district cost, increased by 11.3 students for the 2003-04 budget year. The allowable growth rate set by the state for 2003-04 was only 2.00%. Because of the district's increase in enrollment, the district's "new money" percentage from the state for 2003-04 was 2.31%. Rising expenses related to salaries and benefits settlements, inflation for supply costs, utilities costs, etc. continue to force the district to look at ways of cutting costs and shifting costs between different funds as a means of dealing with the state budget woes.

Figures A-5 and A-6, which follow on the next page, show charts reflecting sources of revenue and distribution of expenses for the 2003-04 fiscal year.

Figure A-5

Sources of Revenues for 2003-04 Fiscal Year

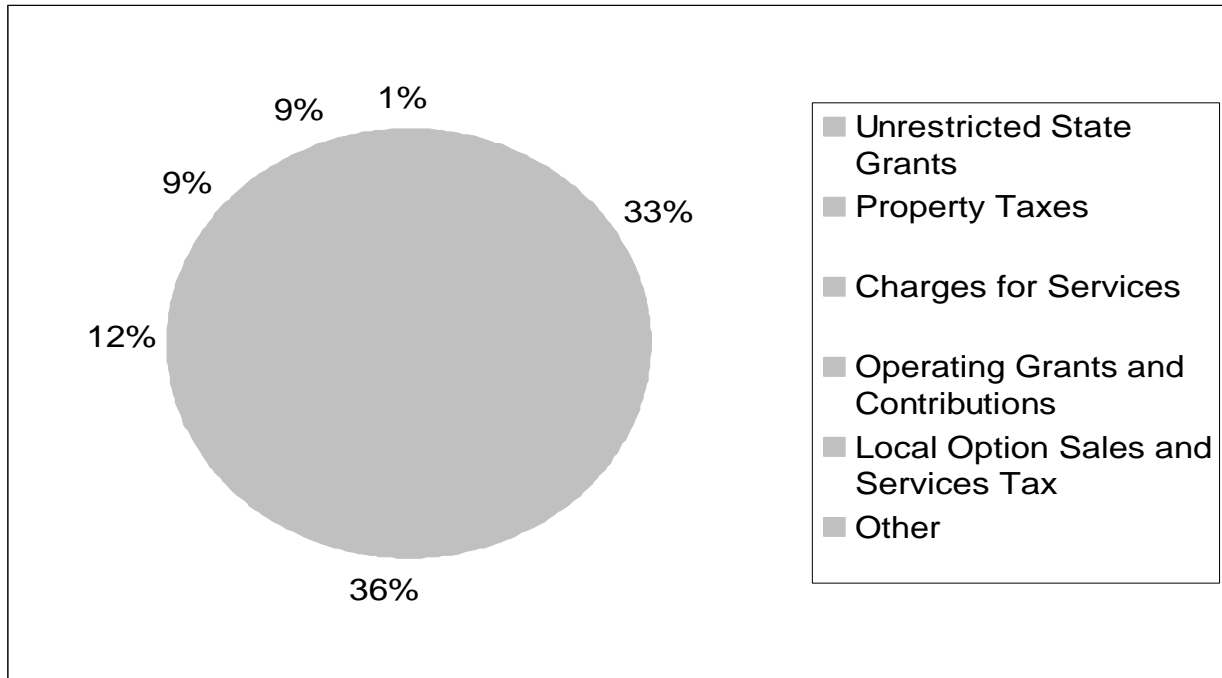
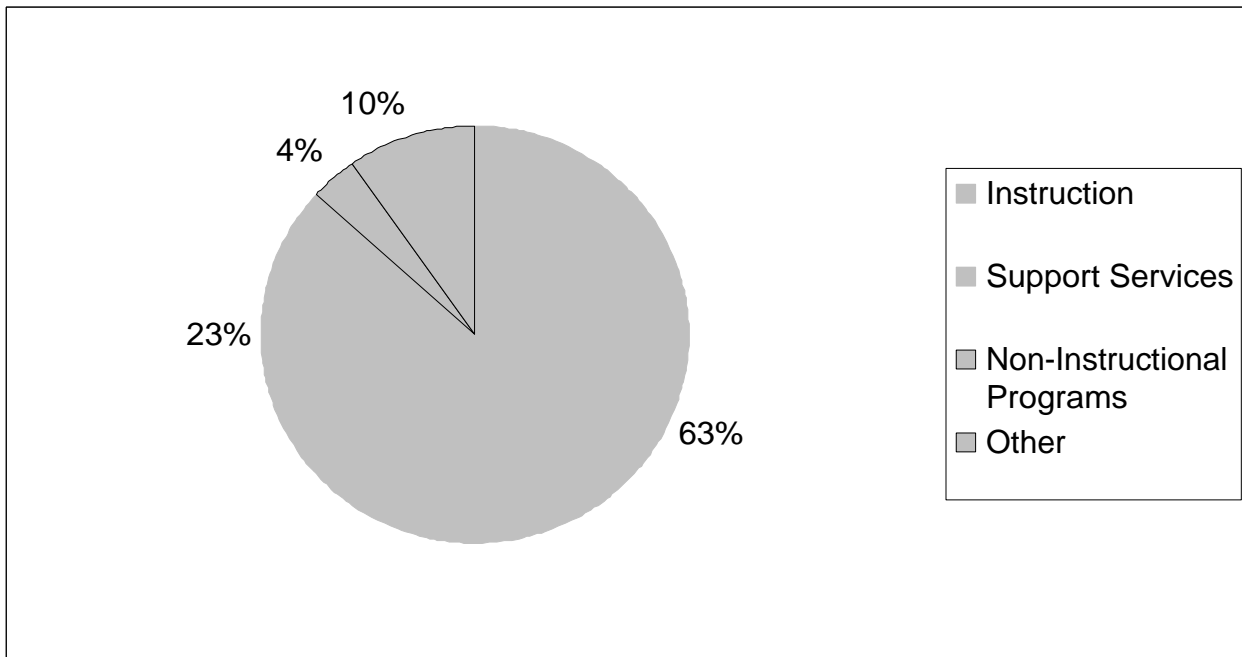


Figure A-6

Expenses for 2003-04 Fiscal Year



Governmental Activities

Revenue for the district's governmental activities in 2003-04 (excluding the gain on disposal of assets) declined 0.5% from the previous year, while total expenses increased by 3.8%. Governmental activities net assets at June 30, 2004 increased by \$ 730,866 (3.1%) over the June 30, 2003 balance.

There were two main factors in the governmental activities revenue decline. One factor was the district no longer needing to levy property tax for debt reserve in 2003-04. The other main factor was the decrease in interest income due to lower average cash balances during 2003-04. Again, one of the main reasons for lower average cash balances was due to the district no longer having significant cash reserves set aside to pay off long-term debt.

Figure A-7 presents the cost of four major district activities: instruction, support services, non-instructional and other. The table also shows each activity's **net cost** (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the district's taxpayers by each of these functions.

Figure A-7

Net Cost of Governmental Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	<u>FY2003</u>	<u>FY2004</u>	<u>2003-04</u>	<u>FY2003</u>	<u>FY2004</u>	<u>2003-04</u>
Instruction	15,653,465	16,813,796	7.4%	13,051,953	13,277,535	1.7%
Support services	6,085,664	6,063,440	-0.4%	5,506,887	5,762,005	4.6%
Non-instructional	0	31,111	-----	0	31,111	-----
Other	2,799,952	2,573,299	-8.1%	1,842,363	1,723,889	-6.4%
Total	24,539,081	25,481,646	3.8%	20,401,203	20,794,540	1.9%

- The cost of all governmental activities this year was \$ 25,481,646.
- Some of the cost (\$ 2,489,134) was financed by the users of the district's programs (see Figure A-4)
- The federal and state governments and some local sources subsidized certain programs with grants and contributions (\$ 2,197,972)
- Most of the district's costs (\$ 20,794,540), however were financed by district and state taxpayers.
- This portion of governmental activities was financed with \$ 10,052,612 in property taxes, \$ 8,863,955 of unrestricted state aid based on the statewide finance formula, \$ 2,468,510 in local option sales and services tax revenue, \$ 82,020 in investment earnings and \$ 58,309 in miscellaneous revenues.

Business-Type Activities

Revenues of the district's business-type activities were \$ 971,904, an increase of 13.9% over 2002-03. Expenses were \$ 933,891, an increase of 12.7% over 2002-03. (Refer to Figure A-4.) Factors contributing to these results included:

- The total of lunch, breakfast and ala carte sales continue to grow significantly. These sales increased by 14.5% in 2003-04. An increase in students served and convenience of the new state of the art point of sale cashiering system are contributing factors in this revenue growth.
- Food service prices are adjusted periodically with the intent of "breaking even" in the Nutrition Fund. Food service prices were not adjusted in 2003-04. The last price increase for food service was at the beginning of the 2001-02 school year.

Financial Analysis of the District's Funds

As previously noted, the Pleasant Valley Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As the district completed the year, its governmental funds reported combined fund balances of \$ 4,375,041. This was an increase of \$ 498,582 from the previous year's combined fund balances. The main reason for the increase in the combined fund balances was due to the fund balance in the Capital Projects Fund increasing by \$ 1,675,160 to a balance of \$ 2,337,269 at June 30, 2004. This balance grew significantly as monthly local option sales tax receipts were deposited into this fund. There were no major expenditures out of this fund for the Bridgeview Elementary School and Pleasant Valley High School building addition projects until the 2004-05 fiscal year. The district's fund balance in the General Fund decreased during the year by \$ 884,698, ending the year with a fund balance of \$ 1,116,090. Rising expenses related to salaries and benefits settlements and inflation for supply costs, utilities costs, etc., continue to exert pressure on the fund balance in the General Fund. In addition, state budget cuts such as a 4.3% across the board cut in state aid during the 2001-02 fiscal year, a reduction in state aid of \$ 86,084 during the 2002-03 fiscal year and a 2.25% across the board cut in state aid during the 2003-04 fiscal year make it difficult to maintain a level fund balance in the General Fund. All of these cuts were made by the state without reducing districts' total spending authority. The fund balance in the Management Fund increased during the year by \$ 91,434 ending the year with a fund balance of \$ 820,299. The liability for the next fiscal year's early retirement payments was recorded as a liability in the Management Fund balance sheet at June 30, 2003. That liability is more appropriately **not** recorded on the Management Fund balance sheet at June 30, 2004. The fund balance in the Physical Plant and Equipment Levy (PPEL) Fund decreased during the year by \$ 448,450. The decrease in the PPEL fund balance was mainly due to significant expenditures related to the building addition and improvement projects occurring during the 2003-04 fiscal year. The fund balance in the Student Activities Fund increased by \$ 65,136 during the fiscal year.

As mentioned previously, the district's business-type activities did well financially during the year. The fund balance in the Nutrition Fund increased during the year by \$ 38,013, ending the year with a fund balance of \$ 309,400.

Budgetary Highlights

A schedule showing the original and final budget amounts compared to the district's actual financial activity is included in the required supplementary information section of this report.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The district converted from the cash basis to the GAAP (Generally Accepted Accounting Principles) method of accounting for budgeting purposes in 2003-04. All other audited financial information was already being reported on the GAAP basis of accounting. Over the course of the year, the district amended its certified budget one time.

Pleasant Valley Community School District's normal practice is to amend the certified budget one time during each fiscal year. Iowa law requires that actual spending in each functional area of the budget does not exceed the amount budgeted to be spent in that functional area at any time during the fiscal year. The district amends the budget each year prior to expenses going over budget in any of the functional areas. The district's practice is to amend the budget to reflect all of the fund balances in each of the various budgeted funds being spent down to a zero balance at the end of the fiscal year. This is the most significant reason for the amended budget showing \$ 8,098,494 more in expenditures than the original certified budget for the 2003-04 fiscal year. The other main reasons for the differences between the original budget and the amended budget are:

- The budget is amended to reflect additional allowed expenditures due to receipt of grant money and other miscellaneous income during the year that was not possible to predict when the certified budget was adopted.

In comparing the actual results for the fiscal year against the final amended budget numbers, there are two receipt line items and three disbursement functional area line items with fairly significant variations between the budgeted and actual final results. Those line items and explanations for the differences follow:

Receipts, Local Sources – The actual receipts from local sources were \$ 1,201,242 more than the amount budgeted for this line on the original certified and final amended budget. The main reason for this variance is due to the fact that the funds the district receives from the state to replace property tax revenue no longer received due to the phase out of machinery and equipment from the taxable valuation base (M & E replacement funds) are required to be shown as coming from state sources when the budget documents are prepared, but the actual receipts are coded by the district as coming from local sources as the receipt of these funds is distributed by the county with local property taxes. That figure amounted to approximately \$ 610,000 in 2003-04.

Other significant reasons for the variance in receipts (actual exceeded budget) from local sources included:

1. Approximately \$ 143,000 more revenue was recorded in tuition receipts than was budgeted.
2. Approximately \$ 126,000 more revenue was recorded in Nutrition Program sales than was budgeted.
3. Approximately \$ 123,000 more revenue was recorded in local option sales tax in the Capital Projects Fund than was budgeted.
4. Approximately \$ 70,000 more revenue was recorded in local grant income than was budgeted.

Receipts, State Sources - The actual receipts from state sources were \$ 1,377,972 less than the amount budgeted for this line on the original certified and final amended budget. The main reason for this variance would be the same as was listed above for the variance on the receipts from local sources (M & E replacement funds are required to be shown as coming from state sources when the budget documents are prepared, but the actual receipts are coded by the district as coming from local sources as the receipt of these funds is distributed by the county with local property taxes). The budgeted figure for M & E replacement funds for 2003-04 was \$ 1,145,947.

Other significant reasons for the variance in receipts (actual under budget) from state sources included:

1. There was a state across the board budget cut of 2.25% in 2003-04. This caused the district to receive approximately \$250,000 less in revenue from the state than was budgeted for the year.

Disbursements, Instruction – The actual disbursements for the “instruction” functional area were \$ 1,549,712 less than the amount shown on the final amended budget. The main reason for this variance would be due to the district’s practice of amending the budget to reflect all of the fund balances in each of the various budgeted funds being spent down to a zero balance at the end of the fiscal year. Because of the district’s conversion from cash to GAAP basis accounting for budgeting purposes, 14 months of expenditures were recognized in 2003-04. This made the variance in this area less than it has normally been in past years.

Disbursements, Support Services - The actual disbursements for the “support services” functional area were \$ 1,197,212 less than the amount shown on the final amended budget. The main reason for this variance would be due to the district’s practice of amending the budget to reflect all of the fund balances in each of the various budgeted funds being spent down to a zero balance at the end of the fiscal year. Because of the district’s conversion from cash to GAAP basis accounting for budgeting purposes, 14 months of expenditures were recognized in 2003-04. This made the variance in this area less than it has normally been in past years.

Disbursements, Other Expenditures - The actual disbursements for the “other expenditures” functional area were \$ 1,557,651 less than the amount shown on the final amended budget. The main reason for this variance would be due to the district’s practice of amending the budget to reflect all of the fund balances in each of the various budgeted funds being spent down to a zero balance at the end of the fiscal year.

It should also be noted that school districts have two levels of budgetary control. One form of budgetary control exists through the “certified budget”, which includes all funds of the district as noted above. This budget is certified with the County Auditor and the Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the “unspent (maximum) authorized budget” and pertains only to the General Fund of the district. The maximum authorized budget is the total “spending authority” in the General Fund of the district. The unspent balance is a budgetary concept and does not mean the “actual General Fund cash”. It is imperative for users of district financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the district.

Capital Asset and Debt Administration

Capital Assets

By the end of the 2003-04 fiscal year, the district had invested \$ 20,098,812 (net of accumulated depreciation of \$ 21,425,441) in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Figure A-8) This amount represents a net increase of \$ 457,271 or 2.3% from last year. **(More detailed information about capital assets can be found in Note 5 to the financial statements.)** Total depreciation expense for the year was \$ 1,361,619.

Figure A-8

Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total School District		Total Percent Change
	@ 6-30-2003	@ 6-30-2004	@ 6-30-2003	@ 6-30-2004	@ 6-30-2003	@ 6-30-2004	2003-04
Land	591,160	591,160	0	0	591,160	591,160	0.0%
Buildings	15,844,944	16,788,924	0	0	15,844,944	16,788,924	6.0%
Improvements other than buildings	283,670	248,481	0	0	283,670	248,481	-12.4%
Furniture and equipment	1,285,226	1,152,744	47,862	40,956	1,333,088	1,193,700	-10.5%
Construction in progress	1,588,679	1,276,547	0	0	1,588,679	1,276,547	-19.6%
Total	19,593,679	20,057,856	47,862	40,956	19,641,541	20,098,812	2.3%

As mentioned earlier in this report, construction on the 13,050 square foot classroom addition to Pleasant View Elementary School was completed during the 2003-04 fiscal year. Building additions were started during 2003-04 at Bridgeview Elementary School and Pleasant Valley High School. All of these projects were financed using Physical Plant and Equipment Levy (PPEL) funds and Local Option Sales and Services Tax for School Infrastructure funds.

Several other major “construction in progress” activities at June 30, 2004 include:

- New district-wide IP telephone system
- New storage building at district Maintenance Center
- City water hookup at Pleasant Valley Junior High School
- Boiler/Water Heater replacement at Pleasant View Elementary School

Long-Term Liabilities

At June 30, 2004, the district had \$ 199,574 in early retirement long-term liabilities with \$ 169,868 due within one year and \$ 932,403 in total compensated absence liabilities with \$ 183,583 in compensated absences due within one year.

At June 30, 2003, the district had \$ 140,162 in early retirement long term liabilities and \$ 727,553 in total compensated absence liabilities with \$ 162,572 in compensated absences due within one year. At June 30, 2003 the early retirement liability due within one year was classified as a current liability. At June 30, 2004, the early retirement liability due within one year was more appropriately classified as a long-term liability due within one year.

Payments of early retirement benefits come out of the district’s Management Fund. Payments of compensated absences come out of the district’s General Fund. More detailed information about the district’s long-term liabilities is available in Note 6 to the financial statements.

Factors Bearing on the District’s Future

At the time these financial statements were prepared and audited, the district was aware of three existing circumstances that could significantly affect its financial health in the future:

- Fiscal year 2004-05 settlements were reached during the 2003-04 fiscal year. Fiscal year 2004-05 marked the fourth year in a row that the district had settlement(s) with employee group(s) in which the total package increase exceeded the rate of growth of state funding (new money). For 2001-02, the settlement between the district and the Pleasant Valley Education Association (teachers union) was a 3.70% total package increase while the district’s new money percentage for 2001-02 was 3.52%. For 2002-03, the settlements for all employee groups were above the district’s new money percentage of 1.42%. Settlements were 2.89% with the Pleasant Valley Education Association, 2.25% with the Service Employees International Union, Local 199 (custodial union) and 2.25% for classified employees and administrators. For 2003-04, the settlement between the district and the Pleasant Valley Education Association was a 3.15% total package increase while the district’s new money percentage for 2003-04 was 2.31%. For 2004-05, the settlement between the district and the Pleasant Valley Education Association was a 3.57% total package increase while the district’s new money percentage for 2004-05 was 3.03%. Employee salaries and benefits make up approximately 80% of General Fund expenditures. Salary and benefit settlements, with any employee group, exceeding the rate of growth of state funding will have an adverse impact upon the district’s General Fund budget.

- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid to schools, (allowable growth) will be predicated upon the condition of the national economy. State funding growth for public schools for fiscal year 2003, previously set during the 2001 legislative session at 4% was subsequently reduced to 1% during the 2002 legislative session. This was the lowest level of state funding growth to schools in over ten years. State funding growth for public schools for fiscal year 2004 and 2005 was set at only 2%.
- Due to changes made to Iowa Code by the 2003 Iowa Legislature, the state replacement funds for machinery and equipment, which were originally scheduled to be paid through the 2005-06 fiscal year, were now only paid through the 2003-04 fiscal year. In addition, the state only paid 34% of the calculated amount due to districts for the 2003-04 fiscal year. As a result of these changes, this revenue, which was being provided by the state, must now be paid by local property taxpayers. This will exert great pressure on the district's ability to maintain a level property tax levy rate in future years.
- A fund-raising campaign began in spring, 2004 with the goal of raising \$ 200,000 in private donations to help with the purchase of equipment for the music and wellness additions at Pleasant Valley High School. The fund-raiser was titled the "Reaching for Excellence" campaign. At the end of the 2003-04 fiscal year, \$ 75,815 had been pledged and \$ 20,317 received on the Reaching for Excellence campaign. As of March 1, 2005, the fund-raiser had received \$ 276,567 in private pledges and \$ 169,627 of those pledges had been received. Pledgers were given the option of paying their pledges as a one-time gift or paying their pledge over two or three tax years. In addition to the fund-raiser, the district is paying \$100,000 in Physical Plant and Equipment Levy funds towards the purchase of equipment for these additions and the district has also received \$100,000 in grants thru March 1, 2005 from the Scott County Regional Authority for purchase of equipment for the high school Music and Wellness additions.

Contacting the District's Financial Management

This financial report is designed to provide the district's citizens, taxpayers, customers, and investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mike Clingsmith, Chief Financial Officer, Pleasant Valley Community School District, P.O. Box 332, Pleasant Valley, IA 52767-0332.

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Basic Financial Statements

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 8,219,616	\$ 313,661	\$ 8,533,277
Receivables:			
Property tax:			
Current year	112,354	-	112,354
Succeeding year	9,048,000	-	9,048,000
Accounts	113,451	3,059	116,510
Due from other governments	681,290	-	681,290
Inventories	-	10,897	10,897
Capital assets, net of accumulated depreciation (note 4)	20,057,856	40,956	20,098,812
Total assets	38,232,567	368,573	38,601,140
Liabilities			
Accounts payable	1,101,768	886	1,102,654
Salaries and benefits payable	2,310,102	40,564	2,350,666
Incurred but not reported claims	252,987	-	252,987
Deferred revenue:			
Succeeding year property tax	9,048,000	-	9,048,000
Other	208,408	17,723	226,131
Long-term liabilities (note 5):			
Portion due within one year:			
Early retirement	169,868	-	169,868
Compensated absences	183,583	-	183,583
Portion due after one year:			
Early retirement	29,706	-	29,706
Compensated absences	748,820	-	748,820
Total liabilities	14,053,242	59,173	14,112,415

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 20,057,856	\$ 40,956	\$ 20,098,812
Restricted for:			
Other special revenue purposes	391,209	-	391,209
Capital Projects	2,337,269	-	2,337,269
Unrestricted, designated for future catastrophic losses	878,405	-	878,405
Unrestricted	514,586	268,444	783,030
Total net assets	\$ <u>24,179,325</u>	\$ <u>309,400</u>	\$ <u>24,488,725</u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental Activities:			
Instruction:			
Regular instruction	\$ 11,751,720	\$ 1,094,069	\$ 660,565
Special instruction	3,188,606	343,021	352,295
Other instruction	1,873,470	1,035,119	51,192
	<u>16,813,796</u>	<u>2,472,209</u>	<u>1,064,052</u>
Support services:			
Student services	704,749	-	-
Instructional staff services	688,197	-	247,601
Administration services	2,048,617	-	-
Operation and maintenance of plant services	1,701,893	16,925	36,909
Transportation services	914,764	-	-
Central support	5,220	-	-
	<u>6,063,440</u>	<u>16,925</u>	<u>284,510</u>
Non-instructional programs	<u>31,111</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	729,589	-	-
AEA flowthrough	849,410	-	849,410
Depreciation (unallocated) *	994,300	-	-
	<u>2,573,299</u>	<u>-</u>	<u>849,410</u>
Total governmental activities	25,481,646	2,489,134	2,197,972
Business-Type Activities:			
Non-instructional programs:			
Food service operations	<u>933,891</u>	<u>758,167</u>	<u>209,884</u>
Total	\$ 26,415,537	\$ 3,247,301	\$ 2,407,856

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (9,997,086)	\$ -	\$ (9,997,086)
(2,493,290)	-	(2,493,290)
(787,159)	-	(787,159)
<u>(13,277,535)</u>	<u>-</u>	<u>(13,277,535)</u>
(704,749)	-	(704,749)
(440,596)	-	(440,596)
(2,048,617)	-	(2,048,617)
(1,648,059)	-	(1,648,059)
(914,764)	-	(914,764)
(5,220)	-	(5,220)
<u>(5,762,005)</u>	<u>-</u>	<u>(5,762,005)</u>
<u>(31,111)</u>	<u>-</u>	<u>(31,111)</u>
(729,589)	-	(729,589)
-	-	-
(994,300)	-	(994,300)
<u>(1,723,889)</u>	<u>-</u>	<u>(1,723,889)</u>
(20,794,540)	-	(20,794,540)
-	34,160	34,160
<u>(20,794,540)</u>	<u>34,160</u>	<u>(20,760,380)</u>

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Capital outlay

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

* = This amount excludes the depreciation that is included
in the direct expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 8,742,650	\$ -	\$ 8,742,650
1,309,962	-	1,309,962
2,468,510	-	2,468,510
8,863,955	-	8,863,955
82,020	3,853	85,873
58,309	-	58,309
<u>21,525,406</u>	<u>3,853</u>	<u>21,529,259</u>
730,866	38,013	768,879
<u>23,448,459</u>	<u>271,387</u>	<u>23,719,846</u>
<u>\$ 24,179,325</u>	<u>\$ 309,400</u>	<u>\$ 24,488,725</u>

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2004

	General	Special Revenue Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	\$ 3,521,054	\$ 222,468	\$ 2,146,794	\$ 1,323,339	\$ 7,213,655
Receivables:					
Property tax:					
Current year	94,485	13,945	-	3,924	112,354
Succeeding year	7,665,000	1,185,000	-	198,000	9,048,000
Accounts	113,451	-	-	-	113,451
Due from other governments	490,815	-	190,475	-	681,290
Total assets	<u>\$ 11,884,805</u>	<u>\$ 1,421,413</u>	<u>\$ 2,337,269</u>	<u>\$ 1,525,263</u>	<u>\$ 17,168,750</u>
Liabilities and Fund Balances					
Liabilities:					
Excess of warrants issued over bank balance	\$ 132,960	\$ -	\$ -	\$ -	\$ 132,960
Accounts payable	558,487	526,239	-	9,513	1,094,239
Salaries and benefits payable	2,310,102	-	-	-	2,310,102
Deferred revenue:					
Succeeding year property tax	7,665,000	1,185,000	-	198,000	9,048,000
Other	102,166	-	-	106,242	208,408
Total liabilities	<u>10,768,715</u>	<u>1,711,239</u>	<u>-</u>	<u>313,755</u>	<u>12,793,709</u>
Fund balance:					
Unreserved:					
Reported in nonmajor Special Revenue Funds	-	-	-	1,211,508	1,211,508
Undesignated	1,116,090	(289,826)	2,337,269	-	3,163,533
Total fund balances	<u>1,116,090</u>	<u>(289,826)</u>	<u>2,337,269</u>	<u>1,211,508</u>	<u>4,375,041</u>
Total liabilities and fund balances	<u>\$ 11,884,805</u>	<u>\$ 1,421,413</u>	<u>\$ 2,337,269</u>	<u>\$ 1,525,263</u>	<u>\$ 17,168,750</u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2004

Total fund balances of governmental funds	\$ 4,375,041
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	20,057,856
The Internal Service Fund is used to charge the cost of the District's self-funded insurance plan to the governmental funds. The net assets of the Internal Service Fund are therefore included under governmental activities.	878,405
Long-term liabilities, including early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,131,977)</u>
Net assets of governmental activities	<u>\$ 24,179,325</u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Special Revenue Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 8,387,564	\$ 1,309,654	\$ 2,468,510	\$ 348,298	\$ 12,514,026
Tuition	1,230,012	-	-	-	1,230,012
Other	485,998	56,491	6,650	1,096,517	1,645,656
Intermediate sources	5,362	-	-	-	5,362
State sources	10,418,867	900	-	247	10,420,014
Federal sources	397,878	-	-	-	397,878
Total revenues	20,925,681	1,367,045	2,475,160	1,445,062	26,212,948
Expenditures:					
Current:					
Instruction:					
Regular instruction	11,115,590	153,889	-	173,193	11,442,672
Special instruction	3,195,175	-	-	-	3,195,175
Other instruction	853,155	-	-	1,020,315	1,873,470
	15,163,920	153,889	-	1,193,508	16,511,317
Support services:					
Student services	695,411	-	-	9,338	704,749
Instructional staff services	681,714	-	-	6,483	688,197
Administration services	1,984,969	-	-	23,380	2,008,349
Operation and maintenance of plant services	1,675,316	-	-	14,731	1,690,047
Transportation services	723,690	141,058	-	40,716	905,464
Central and other support services	5,220	-	-	-	5,220
	5,766,320	141,058	-	94,648	6,002,026
Non-instructional programs	30,775	-	-	336	31,111
Other expenditures:					
Facilities acquisition	-	2,320,548	-	-	2,320,548
AEA flowthrough	849,410	-	-	-	849,410
	849,410	2,320,548	-	-	3,169,958
Total expenditures	21,810,425	2,615,495	-	1,288,492	25,714,412
Excess (deficiency) of revenues over (under) expenditures	(884,744)	(1,248,450)	2,475,160	156,570	498,536

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Special Revenue Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total
Other financing sources (uses):					
Sale of equipment	\$ 46	\$ -	\$ -	\$ -	46
Interfund transfers in	-	800,000	-	-	800,000
Interfund transfers out	-	-	(800,000)	-	(800,000)
Total other financing sources (uses)	46	800,000	(800,000)	-	46
Net change in fund balances	(884,698)	(448,450)	1,675,160	156,570	498,582
Fund balances beginning of year	2,000,788	158,624	662,109	1,054,938	3,876,459
Fund balances end of year	\$ <u>1,116,090</u>	\$ <u>(289,826)</u>	\$ <u>2,337,269</u>	\$ <u>1,211,508</u>	\$ <u>4,375,041</u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ 498,582

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 1,816,065	
Depreciation expense	<u>(1,351,888)</u>	464,177

Certain federal grant revenue was deferred in the prior year and recognized in the current year. The revenue, however, was recognized in the Statement of Activities in the prior year. (482)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (264,262)

The change in net assets of the Internal Service Fund is reported with governmental activities. 32,851

Change in net assets of governmental activities \$ 730,866

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2004

	Enterprise Fund School Nutrition	Internal Service Fund Self-funded Insurance
Assets		
Cash and cash equivalents	\$ 313,661	\$ 1,138,921
Accounts receivable	3,059	-
Inventories	10,897	-
Capital assets, net of accumulated depreciation	40,956	-
Total assets	<u>368,573</u>	<u>1,138,921</u>
Liabilities		
Accounts payable	886	7,529
Salaries and benefits payable	40,564	-
Incurred but not reported claims	-	252,987
Deferred revenue:		
Other	17,723	-
Total liabilities	<u>59,173</u>	<u>260,516</u>
Net Assets		
Invested in capital assets, net of related debt	40,956	-
Unrestricted	<u>268,444</u>	<u>878,405</u>
Total net assets	<u>\$ 309,400</u>	<u>\$ 878,405</u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	Enterprise Fund <u>School Nutrition</u>	Internal Service Fund <u>Self-funded Insurance</u>
Operating revenues:		
Local sources:		
Charges for services	\$ 758,167	\$ 2,140,181
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	279,379	-
Benefits	53,833	2,122,647
Purchased services	7,944	-
Supplies	576,991	-
Small equipment	6,013	-
Depreciation	9,731	-
	<u>933,891</u>	<u>2,122,647</u>
Operating income (loss)	<u>(175,724)</u>	<u>17,534</u>
Non-operating revenues:		
Interest on investments	3,853	15,317
State sources	10,651	-
Federal sources	199,233	-
Total non-operating revenues	<u>213,737</u>	<u>15,317</u>
Change in net assets	38,013	32,851
Net assets beginning of year	<u>271,387</u>	<u>845,554</u>
Net assets end of year	<u>\$ 309,400</u>	<u>\$ 878,405</u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	Enterprise Fund School Nutrition	Internal Service Fund Self-funded Insurance
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 751,491	\$ -
Cash received from miscellaneous operating activities	18,904	2,140,181
Cash payments to employees for services	(328,478)	-
Cash payments to suppliers for goods or services	(534,798)	(2,052,523)
Net cash provided by (used in) operating activities	<u>(92,881)</u>	<u>87,658</u>
Cash flows from non-capital financing activities:		
State grants received	10,651	-
Federal grants received	147,562	-
Net cash provided by non-capital financing activities	<u>158,213</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(2,825)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>3,853</u>	<u>15,317</u>
Net increase in cash and cash equivalents	66,360	102,975
Cash and cash equivalents beginning of year	<u>247,301</u>	<u>1,035,946</u>
Cash and cash equivalents end of year	<u>\$ 313,661</u>	<u>\$ 1,138,921</u>

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	Enterprise Fund School Nutrition	Internal Service Fund Self-funded Insurance
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (175,724)	\$ 17,534
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	9,731	-
Commodities used	51,671	-
Decrease in accounts receivable	2,778	-
Decrease in inventories	7,773	-
Increase (decrease) in accounts payable	(3,294)	7,529
Increase in salaries and benefits payable	4,734	-
Increase in deferred revenues	9,450	-
Increase in incurred but not reported claims	-	62,595
Net cash used in operating activities	\$ <u>(92,881)</u>	\$ <u>87,658</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$51,671 of federal commodities.

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2004

	Private Purpose Trust
	<u>Scholarship</u>
Assets:	
Cash and pooled investments	\$ <u>12,456</u>
Liabilities:	
None	<u>-</u>
Net assets:	
Reserved for scholarships	\$ <u><u>12,456</u></u>
See notes to financial statements.	

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2004

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ <u>281</u>
Deductions:	
Support services:	
Scholarships awarded	<u>500</u>
Change in net assets	(219)
Net assets beginning of year	<u>12,675</u>
Net assets end of year	\$ <u><u>12,456</u></u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

Pleasant Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve, including special education and Title I pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Township of Pleasant Valley, Iowa, the City of Le Claire, Iowa, portions of the City of Bettendorf, Iowa and portions of the rural territory in Scott County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pleasant Valley Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Pleasant Valley Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Scott County Assessor's Conference Board.

B. Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the main operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Special Revenue Fund, Physical Plant and Equipment Levy, is utilized to account for payment of capital and related expenditures for building improvements and certain types of equipment.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the Enterprise, School Nutrition Fund, used to account for the food service operations of the District, and the Internal Service Fund, Self-funded Insurance, used to account for the District's self-funded health and dental insurance plan.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1
Buildings and improvements other than buildings	25,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	20-40 years
Improvements other than buildings	15-40 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable, unearned registration fees, and unearned meal revenues.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, unearned registration fees, and unearned meal revenues.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave benefits payable to employees. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue Fund, Management Levy.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in any of the four functional areas.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Physical Plant and Equipment Levy	Capital Projects	\$ <u>800,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 591,160	\$ -	\$ -	\$ 591,160
Construction in progress	1,588,679	1,471,986	1,784,118	1,276,547
Total capital assets not being depreciated	<u>2,179,839</u>	<u>1,471,986</u>	<u>1,784,118</u>	<u>1,867,707</u>
Capital assets being depreciated:				
Buildings	28,187,972	1,898,687	-	30,086,659
Improvements other than buildings	1,299,509	4,404	-	1,303,913
Furniture and equipment	7,773,753	225,106	158,066	7,840,793
Total capital assets being depreciated	<u>37,261,234</u>	<u>2,128,197</u>	<u>158,066</u>	<u>39,231,365</u>
Less accumulated depreciation for:				
Buildings	12,343,028	954,707	-	13,297,735
Improvements other than buildings	1,015,839	39,593	-	1,055,432
Furniture and equipment	6,488,527	357,588	158,066	6,688,049
Total accumulated depreciation	<u>19,847,394</u>	<u>1,351,888</u>	<u>158,066</u>	<u>21,041,216</u>
Total capital assets being depreciated, net	<u>17,413,840</u>	<u>776,309</u>	<u>-</u>	<u>18,190,149</u>
Governmental activities capital assets, net	<u>\$ 19,593,679</u>	<u>\$ 2,248,295</u>	<u>\$ 1,784,118</u>	<u>\$ 20,057,856</u>

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 422,356	\$ 2,825	\$ -	\$ 425,181
Less accumulated depreciation	<u>374,494</u>	<u>9,731</u>	<u>-</u>	<u>384,225</u>
Business-type activities capital assets, net	<u>\$ 47,862</u>	<u>\$ (6,906)</u>	<u>\$ -</u>	<u>\$ 40,956</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:

 Instruction:

 Regular

\$ 162,421

 Support services:

 Administration

19,017

 Operation and maintenance of plant services

23,990

 Transportation

152,160

357,588

Unallocated depreciation

994,300

Total governmental activities depreciation expense

\$ 1,351,888

Business-type activities:

 Food service operations

\$ 9,731

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Early Retirement	Compensated Absences	Total
Balance beginning of year	\$ 140,162	\$ 727,553	\$ 867,715
Additions	59,412	397,872	457,284
Reductions	-	193,022	193,022
Balance end of year	<u>\$ 199,574</u>	<u>\$ 932,403</u>	<u>\$ 1,131,977</u>
Due within one year	<u>\$ 169,868</u>	<u>\$ 183,583</u>	<u>\$ 353,451</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified, administrative, and classified employees.

Eligible employees must be at least age fifty-five and employees must have completed fifteen years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. For administrators and certified personnel, the early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay. For classified personnel, the early retirement incentive for each eligible employee is the product of 50% of the number of unused sick leave days times the employee's hourly wage rate on the last day of employment times the daily hours worked. Early retirement benefits paid during the year ended June 30, 2004, totaled \$221,191. Early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$786,424, \$767,789, and \$722,598 respectively, equal to the required contributions for each year.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 7. Risk Management

The District has a self-funded health and dental insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$50,000 in insured claims for any one covered individual. Settled claims have not exceeded the commercial coverage for the past three fiscal years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for incurred but unpaid claims. The reserve was \$878,405 at June 30, 2004 and is recorded in the Internal Service Fund. The incurred but not reported claims of \$252,987 are reported as liabilities at June 30, 2004.

Pleasant Valley Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$849,410 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 9. Construction Commitments

The District entered into various contracts totaling \$3,261,488, including change orders, for various projects. The District also had carryover construction contracts from the prior year totaling \$525,166, including change orders. At June 30, 2004 \$608,622 of the contracts were completed and paid, \$345,994 was recorded in accounts payable, and the remaining amounts of the contracts will be paid as work on the projects progresses.

Required Supplementary Information

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances –
Budget and Actual (14-Month Accrual Conversion) – All Governmental Funds
and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2004

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
REVENUES:						
Local sources	\$ 15,947,472	\$ 826,116	\$ 16,773,588	\$ 15,572,346	\$ 15,572,346	\$ 1,201,242
Intermediate sources	5,362	-	5,362	-	-	5,362
State sources	10,420,013	10,651	10,430,664	11,808,636	11,808,636	(1,377,972)
Federal sources	381,291	199,233	580,524	399,464	399,464	181,060
Total revenues	26,754,138	1,036,000	27,790,138	27,780,446	27,780,446	9,692
EXPENDITURES/EXPENSES:						
Instruction	18,656,924	-	18,656,924	16,691,278	20,206,636	1,549,712
Support services	6,665,255	-	6,665,255	6,222,602	7,862,467	1,197,212
Non-instructional programs	30,284	973,901	1,004,185	785,850	1,131,264	127,079
Other expenditures	3,417,696	-	3,417,696	2,377,490	4,975,347	1,557,651
Total expenditures/ expenses	28,770,159	973,901	29,744,060	26,077,220	34,175,714	4,431,654
Excess (deficiency) of revenues over (under) expenditures/ expenses	(2,016,021)	62,099	(1,953,922)	1,703,226	(6,395,268)	4,441,346
Other financing sources, net	46	-	46	-	-	46
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses	(2,015,975)	62,099	(1,953,876)	1,703,226	(6,395,268)	4,441,392
Balance beginning of year	6,391,016	247,301	6,638,317	5,378,955	5,378,955	1,259,362
Balance end of year	\$ 4,375,041	\$ 309,400	\$ 4,684,441	\$ 7,082,181	\$ (1,016,313)	\$ 5,700,754

See accompanying independent auditor's report.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation
Required Supplementary Information
Year Ended June 30, 2004

Governmental Funds			
	14-Month Conversion Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 26,754,138	\$ (541,190)	\$ 26,212,948
Expenditures	28,770,159	(3,055,747)	25,714,412
Net	(2,016,021)	2,514,557	498,536
Other financing sources (uses)	46	-	46
Beginning fund balances	6,391,016	2,514,557	3,876,459
Ending fund balances	<u>\$ 4,375,041</u>	<u>\$ -</u>	<u>\$ 4,375,041</u>
Proprietary Fund			
	Enterprise		
	14-Month Conversion Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 1,036,000	\$ (64,096)	\$ 971,904
Expenses	973,901	(40,010)	933,891
Net	62,099	(24,086)	38,013
Beginning net assets	247,301	24,086	271,387
Ending net assets	<u>\$ 309,400</u>	<u>\$ -</u>	<u>\$ 309,400</u>

See accompanying independent auditor's report.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis. Encumbrances are not recognized on the modified accrual basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year June 30, 2004, the District changed the budget from the cash basis to the modified accrual basis to better match fiscal expenditures to the budget document. The change requires that the District include the prior year accruals as budgeted expenditures in the current year to avoid bypassing the budget for that amount of expenditures. At the time of the change, the District adopted one budget amendment increasing budgeted disbursements by \$8,098,494.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in any of the four functional areas.

Other Supplementary Information

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004

	Special Revenue		
	Management	Student	
	Levy	Activity	Total
Assets			
Cash and pooled investments	\$ 818,240	\$ 505,099	\$ 1,323,339
Receivables:			
Property tax:			
Current year	3,924	-	3,924
Succeeding year	198,000	-	198,000
Total assets	\$ <u>1,020,164</u>	\$ <u>505,099</u>	\$ <u>1,525,263</u>
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	1,865	7,648	9,513
Deferred revenue:			
Succeeding year property tax	198,000	-	198,000
Other	-	106,242	106,242
Total liabilities	<u>199,865</u>	<u>113,890</u>	<u>313,755</u>
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	<u>820,299</u>	<u>391,209</u>	<u>1,211,508</u>
Total liabilities and fund equity	\$ <u>1,020,164</u>	\$ <u>505,099</u>	\$ <u>1,525,263</u>

See accompanying independent auditor's report.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2004

	Special Revenue		
	Management	Student	
	Levy	Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 348,298	\$ -	\$ 348,298
Other	11,066	1,085,451	1,096,517
State sources	247	-	247
Total revenues	<u>359,611</u>	<u>1,085,451</u>	<u>1,445,062</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	173,193	-	173,193
Other instruction	-	1,020,315	1,020,315
Support services:			
Student services	9,338	-	9,338
Instructional staff services	6,483	-	6,483
Administration services	23,380	-	23,380
Operation and maintenance of plant services	14,731	-	14,731
Transportation services	40,716	-	40,716
Non instructional programs	336	-	336
Total expenditures	<u>268,177</u>	<u>1,020,315</u>	<u>1,288,492</u>
Excess of revenues over expenditures	91,434	65,136	156,570
Fund balances beginning of year	<u>728,865</u>	<u>326,073</u>	<u>1,054,938</u>
Fund balances end of year	<u>\$ 820,299</u>	<u>\$ 391,209</u>	<u>\$ 1,211,508</u>

See accompanying independent auditor's report.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Elementary & Junior High Activities:				
P.V. J.H. Art	\$ 138	\$ 814	\$ 1,009	\$ (57)
P.V. J.H. Athletics	1,178	3,837	2,033	2,982
P.V. J.H. Band	470	781	788	463
P.V. J.H. Vocal Music	467	2,534	2,640	361
Junior High Library	450	637	528	559
Boundry Waters	-	10,030	10,030	-
Junior High Drama	422	2,570	609	2,383
P.V. J.H. Chorus	1,377	5,693	4,993	2,077
P.V. J.H. General Activities	2,256	9,716	6,793	5,179
Junior High Athletics	-	14,119	14,119	-
Junior High PTA	1,271	3,859	3,626	1,504
P.V. J.H. Home Economics	270	1,166	1,138	298
P.V. J.H. Industrial Arts	2,831	7,395	6,712	3,514
P.V. J.H. Quest Program	928	560	161	1,327
P.V. J.H. Science	5,002	865	1,634	4,233
P.V. J.H. Special Olympics	197	-	-	197
P.V. J.H. Student Council	648	852	565	935
P.V. J.H. Yearbook	221	6,738	6,634	325
Bridgeview General Activities	5,672	12,885	11,476	7,081
Bridgeview Home Economics	652	1,142	921	873
Bridgeview Quest	(51)	-	-	(51)
Bridgeview PTA	(841)	-	7,568	(8,409)
Bridgeview Technology Walk	-	119	106	13
Bridgeview Vocal Music	8	-	-	8
Cody Band	74	63	63	74
Cody Book Club	763	1,291	1,963	91
Cody Bookstore	358	306	294	370
Cody Candy Sales	2,844	1,910	1,991	2,763
Cody General Activities	11,249	7,116	5,264	13,101
Cody PTA	3,469	13,661	9,985	7,145
Cody Jump for Heart	70	-	-	70
Cody Technology Walk	113	-	-	113
Cody Student Fund	1,108	696	752	1,052
Cody Vocal Music	169	405	426	148
Cody Writing Center	97	-	-	97
Cody Yearbook	1,314	1,429	1,107	1,636
Cody Student Council	37	-	-	37
Cody Science	40	-	-	40
Pleasant View Bookstore	1,411	-	-	1,411

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Elementary & Junior High Activities (continued):				
Pleasant View General Activities	\$ 14,198	\$ 14,577	\$ 10,500	\$ 18,275
Pleasant View PTA	7,788	19,246	26,033	1,001
Pleasant View Band	117	-	-	117
Riverdale Book Club	980	926	994	912
Riverdale Jump for Heart	42	-	-	42
Riverdale General Activities	7,628	11,667	8,794	10,501
Riverdale PTA	12,934	14,427	16,657	10,704
Riverdale Student Council	1,852	-	-	1,852
Riverdale Science	1,370	2,439	1,936	1,873
Riverdale Band	377	2,094	99	2,372
Riverdale Vocal Music	129	-	-	129
District-Wide Garage Sale	-	1,465	-	1,465
Interest	15,212	2,078	115	17,175
High School Activities:				
General Administrative	3,978	124,163	113,199	14,942
Book Club	14	1,709	1,634	89
Clubs and Organizations	13,252	31,956	30,265	14,943
Drama	5,780	33,054	26,565	12,269
Student Phone	-	1,131	1,047	84
High School Athletics	19,130	276,839	240,951	55,018
Pre-School	2,782	1,150	1,076	2,856
Library/Media Activities	7,346	5,525	5,820	7,051
Music Clubs	14,093	33,020	27,701	19,412
Other Miscellaneous	611	5,339	4,371	1,579
Publications	42,049	46,781	54,742	34,088
Academic Resale	17,272	42,573	39,012	20,833
Athletic Support Groups	45,297	294,853	280,552	59,598
Scholarship	1,500	-	1,500	-
Interest	42,779	926	16,697	27,008
PV Spirit Gear	881	4,324	4,127	1,078
Total	\$ 326,073	\$ 1,085,451	\$ 1,020,315	\$ 391,209

See accompanying independent auditor's report.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 12,514,026	\$ 13,141,740	\$ 12,953,185	\$ 11,958,463
Tuition	1,230,012	1,062,284	1,047,765	696,021
Other	1,645,656	1,391,123	1,819,445	1,724,413
Intermediate sources	5,362	-	-	-
State sources	10,420,014	10,400,645	10,072,489	9,970,736
Federal sources	397,878	363,682	224,899	194,508
Total revenues	<u>\$ 26,212,948</u>	<u>\$ 26,359,474</u>	<u>\$ 26,117,783</u>	<u>\$ 24,544,141</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 11,442,672	\$ 11,286,209	\$ 10,197,947	\$ 10,051,095
Special instruction	3,195,175	2,803,988	2,672,191	2,340,525
Other instruction	1,873,470	1,616,000	1,773,216	1,579,584
Support services:				
Student services	704,749	683,297	560,963	510,936
Instructional staff services	688,197	602,646	506,500	493,929
Administration services	2,008,349	2,093,533	2,059,398	1,882,265
Operation and maintenance of plant services	1,690,047	1,652,511	1,553,297	1,799,398
Transportation services	905,464	880,229	695,001	689,478
Central and other support services	5,220	5,220	-	-
Non-instructional programs	31,111	-	1,303	-
Other expenditures:				
Facilities acquisition	2,320,548	2,839,573	1,826,489	1,766,456
Long-term debt:				
Principal	-	5,500,000	1,060,000	1,015,000
Interest and fiscal charges	-	309,628	359,660	405,340
AEA flowthrough	849,410	887,314	869,348	881,648
Total expenditures	<u>\$ 25,714,412</u>	<u>\$ 31,160,148</u>	<u>\$ 24,135,313</u>	<u>\$ 23,415,654</u>

See accompanying independent auditor's report.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

Grantor / Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 04	\$ <u>51,671</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 04	11,638
National School Lunch Program	10.555	FY 04	135,924
			<u>147,562</u>
			<u>199,233</u>
U. S. Department of Education:			
Iowa Department of Education:			
Title 1 Grants to Local Educational Agencies	84.010	GC5250	2,114
Title 1 Grants to Local Educational Agencies	84.010	G5250	85,865
			<u>87,979</u>
Improving Teacher Quality State Grants	84.367	FY 04	<u>84,465</u>
Innovative Education Program Strategies	84.298	FY 03	482
Innovative Education Program Strategies	84.298	FY 04	15,425
			<u>15,907</u>
Grants for Assessments and Related Activities	84.369	FY 04	<u>18,780</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 04	<u>10,674</u>
Special Education - Grants to States	84.027	FY 04	<u>124,038</u>
Vocational Education - Basic Grants to States	84.048	FY 03	990
Vocational Education - Basic Grants to States	84.048	FY 04	15,248
			<u>16,238</u>
Iowa Public Television:			
Star Schools	84.203	FY 04	25,000
			<u>383,081</u>
Corporation for National and Community Service:			
Iowa Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	FY 04	<u>2,249</u>
Total			\$ <u><u>584,563</u></u>

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

Basis of Presentation –

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Pleasant Valley Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of
Pleasant Valley Community School District:

We have audited the financial statements of Pleasant Valley Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 9, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pleasant Valley Community School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Pleasant Valley Community School District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-I-04 and IV-L-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pleasant Valley Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no material weaknesses during the course of our audit.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pleasant Valley Community School District and other parties to whom Pleasant Valley Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pleasant Valley Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
September 9, 2004

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Board of Education of
Pleasant Valley Community School District:

Compliance

We have audited the compliance of Pleasant Valley Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Pleasant Valley Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Pleasant Valley Community School District's management. Our responsibility is to express an opinion on Pleasant Valley Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pleasant Valley Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pleasant Valley Community School District's compliance with those requirements.

In our opinion, Pleasant Valley Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Pleasant Valley Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pleasant Valley Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Pleasant Valley Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no material weaknesses during the course of our audit.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pleasant Valley Community School District and other parties to whom Pleasant Valley Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Oskaloosa, Iowa
September 9, 2004

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Pleasant Valley Community School District qualified as a low-risk auditee.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

II-A-04 Financial Condition – The Special Revenue Fund, Physical Plant and Equipment Levy, had an unreserved, undesignated fund deficit of \$289,826 at June 30, 2004.

Recommendation – The District should investigate alternatives to restore this Fund to healthy condition.

Response – The deficit balance is the result of timing differences only. We will resolve the deficit in the future.

Conclusion – Response accepted.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

No matters were reported.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-04 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget – Disbursements for the year ended June 30, 2004, did not exceed the amount budgeted in any of the four functional areas.
- IV-C-04 Questionable Expenditures – We noted one expenditure made for flowers for a funeral. However, the District has no policy in place for the control of this type of expenditure.

Recommendation – The District should adopt a policy outlining circumstances in which such an expenditure is allowed, dollar amounts, and approval required. The policy should be anti-discriminatory in nature.

Response – We will discuss such a policy and we will take any required action to resolve these situations in the future.

Conclusion – Response accepted.

- IV-D-04 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-E-04 Business Transactions – No business transactions between the District and District officials or employees were noted.
- IV-F-04 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-04 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-I-04 Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, the interest rate on one certificate of deposit from the High School Activity Fund did not meet the minimum rate set by the State committee.

Recommendation – The District should contact the bank and obtain the correct minimum rate as determined by the State. The District should seek reimbursement for the difference in the adjusted interest revenues.

Response – We have contacted the bank and have now resolved this situation.

Conclusion – Response accepted.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting (continued):

- IV-J-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-K-04 Student Activity Fund – We noted one federal grant recorded into the Special Revenue Fund, Student Activity Fund. We also noted the receipts and associated expenditures for science lab fees were recorded in the Student Activity Fund.

Recommendation – All state and federal grants should be accounted for through the General Fund only. In addition, all receipts and expenditures recorded in the Activity Fund should be for co-curricular activities only. All expenditures for educational supplies should be recorded only in the General Fund.

Response – The grant recorded in the Activity Fund was an oversight and will not be repeated in the future. We will investigate the science lab fees account and make any necessary changes.

Conclusion – Response accepted.

- IV-L-04 Additional Compensation – The method of payment to employees for services relating to extra-curricular activities does not allow for the withholding of any taxes.

Recommendation – The District should ensure that payments to employees from the Special Revenue, Student Activity Fund for services performed be treated as additional compensation and, accordingly, withhold the appropriate taxes as required by the Internal Revenue Service and the Iowa Department of Revenue and Finance.

Response – We will take the necessary steps to correct this situation.

Conclusion – Response accepted.

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